

EIN: # [REDACTED]

Gentlemen:

~~DEC 18 1982~~ JAN 4 1983

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

You were formed under a Constitution and By-Laws on [REDACTED].

Your association's purpose is stated in Article I Section 1 of its Constitution and By-Laws. That provision reads as follows:

"The primary purpose...is wholly charitable and educational and intends to bring together people to provide an on-going opportunity for personal growth and development."

Your association is a membership organization. Article II of your Constitution and By-Laws provides for membership.

Article VII Section 2.C. of your Constitution and By-Laws provides for a "social committee". That provision reads as follows:

"The social committee shall make arrangements for the proper reception and introduction of guests. They shall be responsible for all social gatherings of the Association and assist in food catering functions."

Your association's purposes and activities are summarized in Form 1023, Part III-3. The summary reads, in part, as follows:

- "1. The internal organization of the community
  - a. providing ways in which members have contact with each other...There are stated meetings for...teaching and training, social times."
  - "c. an ongoing development of family within the organization..."
- "2. The production workshops."

In a letter dated [REDACTED] we requested additional information about your operation so we could determine your proper tax exempt status. You responded to that request on [REDACTED].

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
SUR-NAME		[REDACTED]	[REDACTED]	[REDACTED]			
DATE		12-29-82	12-29-82	12/30/82			

[REDACTED]

We asked you to describe the social and recreational activities that you sponsor for your members. You responded, in part, as follows:

"Activities include gatherings for coffee, gatherings for wine and cheese,...Camping out at a state park (weekend)."

We asked you to explain an item that appeared in your proposed budget, "contractors' fees". You responded as follows:

"refers to amount paid to independent contractor - money paid for conducting workshop."

We asked you to explain how the amount of those fees would be determined. You responded, in part, as follows:

"Net (gross receipts from workshops less expenses) is divided as follows...\*■% to independent contractor...■% to manager of that area...■% to cities coordinator."

"\*basis as goal is actually a set fee of \$■ per day. Revenues, however, have not yet made this possible; and so we are using this % system in meantime."

We asked if the officers, directors and members of your organization would be employed as independent contractors. You responded as follows:

"Yes".

Section 501(c) of the Internal Revenue Code of 1954 describes certain organizations exempt from income tax under section 501(a) and reads, in part, as follows:

"(3) Corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office."

Rev. Rul. 66-179, 1966-1 C.B. 139 held that an organization that was operated for educational and social purposes was not entitled to exemption under IRC 501(c)(3). Social purposes are not within the scope of IRC 501(c)(3).

[REDACTED]

The prohibition of inurement means that the individuals who control an organization cannot pocket the organization's funds except as reasonable payment for goods or services. If the officers and directors of an organization are paid on a percentage of profits basis the organization's earnings are inuring to those individuals.

In *EST of Hawaii v. Commissioner*, 71 T.C. 1067 (1979) the court held that an organization that sponsored training, seminars, and lectures in the area of intrapersonal awareness that were conducted under licensing arrangement with a for-profit corporation was not entitled to exemption under IRC 501(c)(3). Although the organization's activities were educational in nature, it served the commercial purposes of the for-profit corporation.

In *Birmingham Business College, Inc.*, 276 F.2d. 476 (5th Cir. 1960) the court held that inurement may take the form of unreasonable compensation.

Your corporation sponsors social and recreational activities for the benefit of its members. You have stated that your purpose is in part social. Social purposes are beyond the scope of IRC 501(c)(3).

Your officers, directors and members will be employed by your organization as independent contractors. These individuals are currently paid on a percentage of profits basis. This basis constitutes inurement.

You have stated that in the future you hope to pay your independent contractors at a rate of \$[REDACTED] per day. This rate of compensation is clearly unreasonable, based on available information, and constitutes inurement.

We have therefore concluded that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(3) of the Code or any other section of the Code.

Contributions made to you are not deductible by donors as charitable contributions as defined in section 170(c) of the Code.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director of Appeals or, if you request, at a mutually convenient District Office. A self-addressed envelope is enclosed.

[REDACTED]

If you are in agreement with this proposed determination, we recommend that you sign the enclosed Consent to Proposed Adverse Action (Form 6018), noting in particular the signature instructions on the back of the form.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

The appropriate state officials will be notified of this action as required by section 6104(c) of the Code, if and when this becomes our final determination.

You are required to file income tax returns annually with your District Director.

Thank you for your cooperation.

Very Truly yours,

District Director

Enclosure:  
Form 6018  
Pub. 892  
Envelope